

Message Text

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72

ACTION EUR-25

INFO OCT-01 IO-14 ISO-00 AGR-20 CEA-02 CIAE-00 COME-00

DODE-00 EB-11 FRB-02 H-03 INR-10 INT-08 L-03 LAB-06

NSAE-00 NSC-07 PA-04 RSC-01 AID-20 CIEP-02 SS-20

STR-08 TAR-02 TRSE-00 USIA-15 PRS-01 SP-03 FEA-02

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AMEMBASSY DUBLIN

AMEMBASSY LUXEMBOURG

USMISSION GENEVA

AMEMBASSY THE HAGUE

AMEMBASSY LONDON

AMEMBASSY OSLO

AMEMBASSY PARIS

AMEMBASSY ROME

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AMEMBASSY STOCKHOLM

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E.O. 11652: NA

TAGS: EFIN, ETRD, DA, EEC

SUBJ: GROWING DEFICITS IN DANISH TRADE AND PAYMENTS

BALANCES

REF: COPENHAGEN 1367, 1356 (NOTAL)

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BEGIN SUMMARY. RECENTLY RELEASED TRADE AND FI-

NANCIAL STATISTICS UNDERLINE SERIOUSNESS OF SITUATION WHICH LED TO POLITICAL CRISIS OVER PASSAGE OF STOP-GAP ECONOMIC MEASURES THIS WEEK (REFTELS). FIRST QUARTER TRADE BALANCE SHOWED WHOPPING (FOR DENMARK) DEFICIT OF OVER 700 MILLION DOLLARS WITH CURRENT ACCOUNT DEFICIT UNOFFICIALLY ESTIMATED AT ALMOST 500 MILLION DOLLARS. CONTINUATION OF TREND COULD LEAD TO ANNUAL CURRENT ACCOUNT DEFICIT MORE THAN 50 PERCENT HIGHER THAN ALREADY PESSIMISTIC EARLIER OFFICIAL ESTIMATE OF AROUND 1 BILLION DOLLARS. REDUCED BUSINESS ACTIVITY AND RECENT GOVERNMENT MEASURES WILL MITIGATE TREND SOMEWHAT. NOTWITHSTANDING DETERIORATING EXTERNAL ACCOUNTS POSITION, DENMARK'S FOREIGN EXCHANGE RESERVE LOSSES HAVE BEEN RELATIVELY SMALL AND RESERVES ARE BELIEVED SUFFICIENT TO FINANCE DEFICIT THIS YEAR. MORE CRUCIAL PROBLEM WILL COME NEXT YEAR IF, IN MEANTIME, CORRECTIVE MEASURES DO NOT BEGIN MOVING BALANCE OF PAYMENTS TOWARD EQUILIBRIUM. END SUMMARY.

1. DANISH FOREIGN TRADE BALANCE FOR FIRST QUARTER 1974 SHOWED DEFICIT OF 4.4 BILLION KRONER (733 MILLION DOLLARS--CONVERSION OF 6 KRONER PER DOLLAR USED THROUGHOUT ALTHOUGH THIS DISTORTS PREVIOUS YEARS' FIGURES SOMEWHAT) ON FOB/CIF BASIS, OR PROJECTED ANNUAL DEFICIT OF 17 BILLION KRONER (2.8 BILLION DOLLARS). ANNUAL PROJECTED RATE WOULD BE 7.5 BILLION (1.25 BILLION DOLLARS) MORE THAN 1973 AND ABOUT 12 BILLION (2 BILLION DOLLARS) MORE THAN 1972 WHEN IMPORT SURCHARGE TEMPORARILY CURTAILED IMPORTS.

2. BALANCE OF PAYMENTS FOR FIRST QUARTER HAS NOT YET BEEN OFFICIALLY COMPUTED BUT EMBASSY ESTIMATES INDICATE THAT DEFICIT ON CURRENT ACCOUNT WILL BE ABOUT 2.8 BILLION KRONER (467 MILLION DOLLARS). ON ANNUAL BASIS, THIS WOULD MEAN CURRENT ACCOUNT DEFICIT OF ABOUT 10 BILLION LIMITED OFFICIAL USE

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KRONER (1.67 BILLION DOLLARS). APPROXIMATELY HALF OF DEFICIT WOULD BE DUE TO HIGHER OIL PRICES.

3. IT IS NOT EXPECTED, HOWEVER, THAT THE TRADE BALANCE WILL REMAIN QUOTE AS NEGATIVE DURING REMAINDER OF YEAR AS IT WAS IN FIRST QUARTER. THE ALREADY REDUCED ACTIVITY IN CONSTRUCTION SECTOR AND ANTICIPATED COOLING OF INVESTMENT

CLIMATE AFTER LAST YEAR'S SHARP UPSWING PRESUMABLY WILL REDUCE IMPORT DEMANDS SOMEWHAT WHILE, ON OTHER HAND, EXPORTS ARE EXPECTED TO MAINTAIN THEIR PACE. THIS COMBINATION SHOULD REDUCE BOTH TRADE AND PAYMENTS DEFICITS BY SEVERAL BILLION KRONER, PROBABLY TO LEVELS OF ABOUT 15 BILLION (2.5 BILLION DOLLARS) ON TRADE (13 BILLION ON NET FOB BASIS) AND ABOUT 8 BILLION (1.3 BILLION DOLLARS) ON PAYMENTS. RESULT WOULD STILL REPRESENT SEVERE DETERIORATION FROM 1973 WHEN CURRENT PAYMENTS DEFICIT WAS 3 BILLION KRONER (500 MILLION DOLLARS) AND FROM 1972 WHEN IT WAS LESS THAN ONE BILLION KRONER (167 MILLION DOLLARS).

4. A COMPLUSORY SAVINGS SCHEME, WHICH IS TO COME INTO EFFECT IN THE FALL, WILL HAVE LIMITED AND DELAYED IMPACT UPON CONSUMER DEMAND. MORE IMMEDIATE EFFECTS MAY BE EXPECTED FROM TAX INCREASES ON TOBACCO, LIQUOR, AUTOMOBILES AND OTHERHCONSUMER DURABLES, BUT THE OVERALL DAMPENING EFFECT UPON IMPORTS WILL PROBABLY NOT EXCEED ONE BILLION KRONER (167 MILLION DOLLARS) AND MIGHT WELL FALL CONSIDERABLY SHORT OF THIS AMOUNT.

5. THE GROWING BALANCE OF PAYMENTS DEFICIT THUS FAR HAS RESULTED IN ONLY LIMITED FOREIGN EXCHANGE RESERVE LOSSES. EXCHANGE RESERVES WERE REDUCED BY ABOUT ONE BILLION KRONER EQUIVALENT IN FIRST FOUR MONTHS OF THE YEAR, OR FROM 7.8 TO 6.8 BILLION KRONER (1.3 TO 1.1 MILLION DOLLARS). RECENT SIGNINGS OF RATHER LARGE FOREIGN LOANS LIMITED OFFICIAL USE

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ON FAVORABLE TERMS INDICATE THAT NET CAPITAL OUTFLOW OVER THE REMAINDER OF THE YEAR MAY BECOME MITIGATED. IN ANY EVENT, UNLESS SOME YET UNANTICIPATED FURTHER DETERIORATION OCCURS, THE EXCHANGE SITUATION SHOULD REMAIN MANAGEABLE THIS YEAR, BUT WILL LEAVE A SOMEWHAT WEAKER STARTING POSITION FOR 1975. MOST ANALYSIS FEEL THEREFORE THAT NECESSARY ADJUSTMENTS IN THE DOMESTIC ECONOMY (E.G, PUBLIC SECTOR SAVINGS, REALIGNMENT OF RESOURCES TOWARD EXPORT INDUSTRIES) MUST BE TAKEN AS SOON AS POSSIBLE TO PERMIT THE BALANCE OF PAYMENTS TO BEGIN TO MOVE TOWARD EQUILIBRIUM; OTHERWISE, CONTINUING RISE IN EXTERNAL DEFICITS COULD LEAD TO CRITICAL PAYMENTS CRISIS IN 1975.

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